

**CITY OF MALVERN**

**INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS  
SUPPLEMENTARY AND OTHER INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2013**

## Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Management's Discussion and Analysis	7-11
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 13
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 14
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 15
Notes to Financial Statements	16-23
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	25
Notes to Other Information – Budgetary Reporting	26
Supplementary Information:	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Government Funds	1 28
Combining Statement of Cash Receipts, Disbursements and Changes in Cash Balances - General Fund	2 29
Schedule of Indebtedness	3 30
Bond and Note Maturities	4 31
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5 32
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34-35
Schedule of Findings	36-39

## City of Malvern

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Toni Michel	Mayor	January 2014
Jessica Winstead	Council Member	January 2014
Doug Shere	Council Member	January 2016
Dwain Pelzer	Council Member	January 2016
Quincy Hunt	Council Member	January 2014
Lantz Powels	Council Member	January 2016
Shari Mueller	City Clerk	Indefinite
Kathy Anderson	Deput Clerk	Indefinite
T.J. Patterman	Attorney	Indefinite

**City of Malvern**



Diane McGrain, CPA  
Jim Menard, CPA

December 6, 2013

### Independent Auditors' Report

To the Honorable Mayor and  
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

#### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Continued...

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712•322•8734 / fax 712•322•4699  
www.schroer-cpa.com



Independent Auditor's Report  
City of Malvern

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Malvern as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

*Supplementary and Other Information*

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Malvern's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 11, and 25 through 26 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our reports dated December 6, 2013 on our consideration of the City of Malvern's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Malvern's internal control over financial reporting and compliance.

*Schroeder & Associates, PC*

---

## MANAGEMENT'S DISCUSSION AND ANALYSIS

---

The City of Malvern provides this Management's Discussion and analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### 2013 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities decreased 0.9%, or approximately \$7,000, from fiscal 2012 to fiscal 2013. Operating grants decreased approximately \$9,000.

Disbursements increased 3%, or approximately \$20,000, in fiscal 2013 from fiscal 2012. Public works disbursements increased by approximately \$14,000.

The City's total cash basis net position increased by 12%, or \$35,141, from June 30, 2012 to June 30, 2013. Of this amount, the assets of the governmental activities increased \$29,194, and business type activities increased by \$5,947.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

### Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.



## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-Wide Financial Statement*

One of the most important questions asked about the City's finances is, "is the City as a whole better off or worse off as a result of the year's activities." The Statement of Activities and Net Position reports information which helps answer this question.

The Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Position is divided into two kinds of activities:

- ❖ Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- ❖ Business Type Activities include the sanitary sewer system. This activity is financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt-Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operation and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds considered to be major funds of the City.

The required financial statements for proprietary funds include a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.



## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from \$135 thousand to \$165 thousand. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service	\$ 119	\$ 116
Operating grants, contributions and restricted interest	166	175
General receipts:		
Property tax	394	402
Tax increment financing	7	7
Local option sales tax	76	71
Miscellaneous	2	-
Total receipts	<u>764</u>	<u>771</u>
Disbursements:		
Public safety	68	71
Public works	230	216
Culture and recreation	194	192
Community and economic development	9	9
General government	113	106
Debt service	120	120
Total disbursements	<u>734</u>	<u>714</u>
Change in cash basis net position	30	57
Cash basis net position beginning of year	<u>135</u>	<u>78</u>
Cash basis net position end of year	<u>\$ 165</u>	<u>\$ 135</u>

The City's total receipts for governmental activities decreased by 0.9%, or \$7,000. The total cost of all programs and services increased by approximately 3%, or \$20,000. The decrease in receipts was primarily due to decreases in general government operating grants, contributions and restricted interest.

The cost of all governmental activities this year was \$734 thousand compared to \$714 thousand last year. The City spent more monies on public works.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year ended June 30,	
	2013	2012
Receipts:		
Program receipts:		
Charges for service		
Water	\$ 165	\$ 159
Sewer	126	125
General receipts:		
Miscellaneous	3	5
Total receipts	<u>294</u>	<u>289</u>
Disbursements:		
Water	155	143
Sewer	133	115
Total disbursements	<u>288</u>	<u>258</u>
Change in cash basis net position	6	31
Cash basis net position beginning of year	<u>158</u>	<u>127</u>
Cash basis net position end of year	<u>\$ 164</u>	<u>\$ 158</u>

Total business type activities receipts for the fiscal year were \$294 thousand compared to \$289 thousand last year. The cash balance increased by \$6 thousand.

#### INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Malvern completed the year, its governmental funds reported a combined fund balance of \$164,732, an increase of \$29,194 from last year's total of \$135,538. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- ❖ The General Fund cash balance increased \$20,733 from the prior of (\$3,563) to \$17,170 due to an transfer from Local Option Sales Tax Fund, grant funds and additional street revenue.
- ❖ The Road Use Tax Fund increased \$3,390, Employee Benefits Fund decreased \$3,923, and Local Option Sales Tax Fund increased \$8,941.
- ❖ The Debt Service Fund cash balance decreased \$512 during the fiscal year.
- ❖ The Capital Projects Fund did not change during the fiscal year.

#### INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- ❖ The Sewer Fund cash balance decreased by \$7,939 to (\$6,118) during the fiscal year. \$31,166 is restricted for the sewer sinking fund.
- ❖ The Water Fund cash balance increased by \$13,886 to \$169,638 during the fiscal year due to increased sale of water.

## BUDGETARY HIGHLIGHTS

Over the course of the year, the public works budget was exceeded by \$706 due to street equipment maintenance and repair. There was one budget amendment during the year that increased revenues \$14,360 to allow for intergovernmental receipts and increased disbursements by \$25,360 to allow for additional culture and recreation and general government disbursements.

## DEBT ADMINISTRATION

At June 30, 2013, the City had \$790,627 in bonds and other long-term debt, compared to approximately \$929,222 last year as shown below:

	Outstanding Debt at Year End	
	(Expressed in Thousands)	
	Year Ended June 30,	
	2013	2012
General obligation notes	\$ 308	\$ 409
Revenue notes	483	520
	<u>\$ 791</u>	<u>\$ 929</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt was \$308,000 at fiscal year end, which is significantly below the City's constitutional debt limit of \$2.2 million.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Malvern's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees that will be charged for various City activities. The City increased the tax rates approximately .00773 from the previous year.

These indicators were taken into account when adopting the budget for fiscal year 2014. The debt service levy was increased from 15.93276 in 2013 to 15.94049 in 2014, for a difference of .00773.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Shari Mueller, City Clerk, 107 E. 4<sup>th</sup> Street, Malvern, Iowa.

## **Basic Financial Statements**



City of Malvern  
Cash Basis Statement of Activities and Net Position  
As of and for the year ended June 30, 2013

Functions/Programs:	Program Receipts			Net (Disbursement) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
<b>Governmental activities:</b>						
Public safety	\$ 68,157	615	-	(67,542)	-	(67,542)
Public works	229,966	80,382	124,818	(24,766)	-	(24,766)
Culture and recreation	194,274	36,736	26,307	(131,231)	-	(131,231)
Community and economic development	9,332	-	-	(9,332)	-	(9,332)
General government	113,096	1,465	1,815	(109,816)	-	(109,816)
Debt service	120,077	-	12,627	(107,450)	-	(107,450)
Capital projects	-	-	-	-	-	-
Total governmental activities	734,902	119,198	165,567	(450,137)	-	(450,137)
<b>Business type activities:</b>						
Water	154,907	165,363	-	-	10,456	10,456
Sewer	133,756	125,505	-	-	(8,251)	(8,251)
Total business type activities	288,663	290,868	-	-	2,205	2,205
<b>Total</b>	<b>\$ 1,023,565</b>	<b>410,066</b>	<b>165,567</b>	<b>(450,137)</b>	<b>2,205</b>	<b>(447,932)</b>
<b>General Receipts:</b>						
Property tax levied for:						
General purposes				254,393	-	254,393
Employee benefits				33,369	-	33,369
Debt service				106,938	-	106,938
Tax increment financing collections				6,566	-	6,566
Local option sales tax				75,941	-	75,941
Unrestricted interest on investments				316	624	940
Miscellaneous				1,808	3,118	4,926
Total general receipts and transfers				479,331	3,742	483,073
Change in cash basis net position				29,194	5,947	35,141
Cash basis net position beginning of year				135,538	157,573	293,111
Cash basis net position end of year				<b>\$ 164,732</b>	<b>163,520</b>	<b>328,252</b>
<b>Cash Basis Net Position</b>						
Restricted:						
Expendable:						
Streets				\$ 108,006	-	108,006
Employee benefits				26,022	-	26,022
Property tax relief				37,262	-	37,262
Urban renewal purposes				16,039	-	16,039
Library trust				1,330	-	1,330
Debt service				6,475	31,166	37,641
Unrestricted				(30,422)	132,354	101,932
Total cash basis net position				<b>\$ 164,732</b>	<b>163,520</b>	<b>328,252</b>

See notes to financial statements

City of Malvern  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances - Governmental Funds  
As of and for the year ended June 30, 2013

	General	Special Revenue			Debt Service	Other Nonmajor Governmental Funds	Total
		Road Use Tax	Employee Benefits	Local Option Sales Tax			
<b>Receipts</b>							
Property tax	\$ 243,987	-	32,065	-	102,800	-	378,852
Tax increment financing	-	-	-	-	-	6,566	6,566
Other city tax	10,406	-	1,304	75,941	4,138	-	91,789
Licenses and permits	830	-	-	-	-	-	830
Use of money and property	8,614	-	-	-	-	-	8,614
Intergovernmental	10,006	124,818	-	6,000	11,000	-	151,824
Charges for service	118,368	-	-	-	-	-	118,368
Special assessments	-	-	-	-	1,627	-	1,627
Miscellaneous	3,304	-	-	-	-	2,322	5,626
<b>Total receipts</b>	<b>395,515</b>	<b>124,818</b>	<b>33,369</b>	<b>81,941</b>	<b>119,565</b>	<b>8,888</b>	<b>764,096</b>
<b>Disbursements</b>							
Operating:							
Public safety	68,157	-	-	-	-	-	68,157
Public works	91,922	121,428	16,616	-	-	-	229,966
Culture and recreation	171,176	-	15,341	6,000	-	1,757	194,274
Community and economic development	2,766	-	-	-	-	6,566	9,332
General government	107,761	-	5,335	-	-	-	113,096
Debt service	-	-	-	-	120,077	-	120,077
<b>Total disbursements</b>	<b>441,782</b>	<b>121,428</b>	<b>37,292</b>	<b>6,000</b>	<b>120,077</b>	<b>8,323</b>	<b>734,902</b>
Excess (deficiency) of receipts over (under) disbursements	(46,267)	3,390	(3,923)	75,941	(512)	565	29,194
Other financing sources (uses):							
Operating transfers in	67,000	-	-	-	-	-	67,000
Operating transfers out	-	-	-	(67,000)	-	-	(67,000)
<b>Total other financing sources (uses)</b>	<b>67,000</b>	<b>-</b>	<b>-</b>	<b>(67,000)</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net change in cash balances</b>	<b>20,733</b>	<b>3,390</b>	<b>(3,923)</b>	<b>8,941</b>	<b>(512)</b>	<b>565</b>	<b>29,194</b>
Cash balances beginning of year	(3,563)	104,616	29,945	28,341	6,987	(30,788)	135,538
Cash balances end of year	\$ 17,170	108,006	26,022	37,282	6,475	(30,223)	164,732
<b>Cash Basis Fund Balances</b>							
Restricted for:							
Streets	\$ -	108,006	-	-	-	-	108,006
Employee benefits	-	-	26,022	-	-	-	26,022
Local option sales tax	-	-	-	37,282	-	-	37,282
Library trust	-	-	-	-	-	-	-
Debt service	-	-	-	-	6,475	-	6,475
Other purposes	-	-	-	-	-	17,369	17,369
Unassigned	17,170	-	-	-	-	(47,592)	(30,422)
<b>Total cash basis fund balances</b>	<b>\$ 17,170</b>	<b>108,006</b>	<b>26,022</b>	<b>37,282</b>	<b>6,475</b>	<b>(30,223)</b>	<b>164,732</b>

See notes to financial statements

City of Malvern  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2013

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 165,363	125,505	290,868
Operating disbursements:			
Business type activities	154,907	79,856	234,763
Excess of operating receipts over operating disbursements	10,456	45,649	56,105
Non-operating receipts (disbursements):			
Interest on investments	312	312	624
Miscellaneous	3,118	-	3,118
Debt service	-	(53,900)	(53,900)
Total non-operating receipts (disbursements)	3,430	(53,588)	(50,158)
Net change in cash balances	13,886	(7,939)	5,947
Cash balances beginning of year	155,752	1,821	157,573
Cash balances end of year	\$ 169,638	(6,118)	163,520
<b>Cash Basis Fund Balances</b>			
Restricted for debt service	\$ -	31,166	31,166
Unrestricted	169,638	(37,284)	132,354
Total cash basis fund balances	\$ 169,638	(6,118)	163,520

See notes to financial statements

City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (1) Summary of Significant Accounting Policies**

The City of Malvern is a political subdivision of the State of Iowa located in Mills County. It was first incorporated in 1869 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

**A. Reporting Entity**

For financial reporting purposes, the City of Malvern has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Mills County Assessor's Conference Board, Mills County Emergency Management Commission and Mills County E911 Board.

**B. Basis of Presentation**

**Government-wide Financial Statements** - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

*Expendable restricted net position* result when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.



City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

*Unrestricted net position* consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often have constraints on cash balances imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Employee Benefit Fund is used to account for property taxes levied to pay employee benefits.

The Local Option Sales Tax Fund is used to account for receipts required from the tax authorized by referendum and used for property tax relief.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**B. Basis of Presentation - Continued**

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's sanitary sewer system.

**C. Measurement Focus and Basis of Accounting**

The City of Malvern maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Governmental Cash Basis Fund Balances:**

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (1) Summary of Significant Accounting Policies - Continued**

**E. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the public works function.

**F. Property Tax Calendar**

The City's property tax rates were extended against the assessed valuation of the City as of January 1, 2011, to compute the amounts which became liens on property on July 1, 2012. These taxes were due and payable in two installments on September 30, 2012 and March 31, 2013, at the Mills County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

**NOTE (2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's cash, which consists of cash in bank and certificates of deposit, totaled \$328,252.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board (GASB) No. 3, as amended by Statement No. 40.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.



City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (3) Notes Payable**

Annual debt service requirements to maturity of general obligation notes are as follows:

Year Ended June 30,	General Obligation Notes		Revenue Note		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 105,500	14,302	38,000	14,490	143,500	28,792
2015	88,259	9,175	39,000	13,350	127,259	22,525
2016	86,673	4,800	40,000	12,180	126,673	16,980
2017	27,195	1,292	41,000	10,980	68,195	12,272
2018	-	-	42,000	9,750	42,000	9,750
2019-2023	-	-	232,000	28,920	232,000	28,920
2024	-	-	51,000	1,530	51,000	1,530
	<u>\$ 307,627</u>	<u>29,569</u>	<u>483,000</u>	<u>91,200</u>	<u>790,627</u>	<u>120,769</u>

Interest costs paid during the year ended June 30, 2013 totaled \$34,802.

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The City has a general obligation debt limit of approximately \$2,300,000 which was not exceeded during the year ended June 30, 2013.

Revenue Notes – The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$799,000 in sewer revenue notes issued in June 2004. Proceeds from the notes provided financing for the construction of improvements to the sewer treatment plant. The notes are payable solely from sewer customer net receipts and are payable through 2024. The annual principal and interest payments on the notes were 116% of net receipts. The total principal and interest remaining to be paid is \$574,200. For the current year, principal and interest paid and total customer net receipts were \$52,600 and \$45,649, respectively.

The resolutions providing for the issuance of the sewer revenue notes include the following provisions:

- a) The notes will only be redeemed from the future earnings of the sewer enterprise activity, and the note holders hold a lien on the future earnings of the fund.
- b) Sufficient monthly transfers shall be made to the sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.

The City has complied with the provisions of the resolution. However, net receipts were insufficient to cover debt service payments and operations resulting in a negative unrestricted fund balance.



City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (4) Lease Agreement**

The City leases a copy machine under an operating lease agreement. Rent expense for the year ended June 30, 2013 was \$1,440. The future minimum required minimum lease payments are as follows:

Year ending June 30,	Amount
2014	\$ 1,440
2015	1,440
2016	1,440
2017	240
	<u>\$ 4,560</u>

**NOTE (5) Pension and Retirement Benefits**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of annual covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2013, 2012, and 2011, were \$15,887, \$13,110, and \$11,018, respectively, equal to the required contributions for each year.

**NOTE (6) Compensated Absences**

City employees accumulate vacation days for subsequent use or for payment at the end of the calendar year during which it was required to be taken. These accumulations are not recognized as disbursements by the City until used or paid. Employees are entitled to payment of accrued vacation upon termination, retirement, death, or disability. The City's approximate liability for earned vacation benefits payable to employees at June 30, 2013, primarily relating to the General Fund is \$3,136. This liability is computed on rates of pay effective as of June 30, 2013.

City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (7) Other Postemployment Benefits (OPEB)**

The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 4 active and 0 retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug coverage is provided through a fully-insured plan with Wellmark. The same premium is paid for retirees under age 65 for the medical/prescription drug benefit as active employees, which results in an implicit subsidy and an OPEB liability.

The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premium for the City and plan members is \$564 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, there were no plan members eligible for benefits.

**NOTE (8) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Local Option Sales Tax	\$ <u>67,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse resources.

**NOTE (9) Commitments**

Law Enforcement Contract

The City has contracted with Mills County, Iowa whereby the County provides law enforcement services within the City of Malvern through the office of the Sheriff of Mills County, Iowa through June 30, 2014 for an annual amount of \$16,831.

Administrative Services Contract

The City renewed its agreement with PeopleService, whereby the City engages PeopleService to manage, operate, and maintain the City's water and wastewater utility system. The Company in turn refunds to the City all cost savings on non-payroll operating expenses. The monthly contracted fee is \$8,048, plus \$2.50 per account bill, with an annual adjustment equaling the change in Consumer Price Index for All Urban Consumers (CPI-U) plus one percent, effective through June 30, 2015.

As required in this agreement, PeopleService computes, bills, collects and transmits to the City the revenues from water, sewer and landfill usage.

City of Malvern  
Notes to Financial Statements  
June 30, 2013

**NOTE (9) Commitments - Continued**

Rescue Services Contract

Malvern Volunteer Rescue, Inc. is a separate entity established to provide rescue services. In July 1989, the City signed an ambulance service contract with the Organization, which has been extended for successive one year terms. The Organization is required to provide 24 hour phone service, all insurance, maintenance, repairs and supplies for City owned rescue unit vehicles and trained personnel to respond to rescue calls. The City is required to pay the Organization \$1,104 per month for these services.

Communication Services

The City has a 28E agreement with Mills County for the purpose of providing emergency communication services, effective through June 30, 2014. The City's share of the support is \$9,136 for the year ending June 30, 2014.

**NOTE (10) Risk Management**

The City of Malvern is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**NOTE (11) Deficit Fund Balances**

At June 30, 2013, the City had the following deficit fund balances:

Capital Projects Fund	\$	47,592
Enterprise, Sewer Fund		<u>6,118</u>
Total	\$	<u>53,710</u>

The deficits will be eliminated with transfers and increases in rates when appropriate.

**NOTE (12) Subsequent Events**

In October 2013, the State Auditor began a fraud investigation audit on the library records. The investigation is expected to be completed December 2013.

## **Other Information**



City of Malvern  
 Budgetary Comparison Schedule  
 of Receipts, Disbursements, and Changes in Balances -  
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds  
 Other Information  
 Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Net	Budgeted Amounts		Budget to Net Variance
				Original	Final	
<b>Receipts</b>						
Property tax	\$ 378,852	-	378,852	392,749	392,749	(13,897)
Tax increment financing	6,566	-	6,566	6,566	6,566	-
Other city tax	91,789	-	91,789	87,034	87,034	4,755
Licenses and permits	830	-	830	3,075	3,075	(2,245)
Use of money and property	8,614	624	9,238	3,850	3,850	5,388
Intergovernmental	151,824	-	151,824	163,038	177,398	(25,574)
Charges for services	118,368	290,868	409,236	437,200	437,200	(27,964)
Special assessments	1,627	-	1,627	-	-	1,627
Miscellaneous	5,626	3,118	8,744	-	-	8,744
Total receipts	764,096	294,610	1,058,706	1,093,512	1,107,872	(49,166)
<b>Disbursements</b>						
Public safety	68,157	-	68,157	73,545	73,545	5,388
Public works	229,966	-	229,966	222,400	229,260	(706)
Culture and recreation	194,274	-	194,274	180,347	194,647	573
Community and economic development	9,332	-	9,332	9,816	9,816	484
General government	113,096	-	113,096	109,225	113,225	129
Debt service	120,077	-	120,077	121,343	121,343	1,266
Business type activities	-	288,663	288,663	361,773	361,773	73,110
Total disbursements	734,902	288,663	1,023,565	1,078,449	1,103,809	80,244
Excess of receipts over disbursements	29,194	5,947	35,141	15,063	4,063	31,078
Balances beginning of year	135,538	157,573	293,111	251,618	251,618	41,493
Balances end of year	\$ 164,732	163,520	328,252	266,681	255,681	72,571

See accompanying independent auditors' report

City of Malvern  
Notes to Other Information – Budgetary Reporting  
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon major classes of disbursements known as functions, not by fund or fund type. These functions are: public safety, public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by \$14,360 and budgeted disbursements by \$25,360. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the public works function.

## Supplementary Information

City of Malvern  
Schedule of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Nonmajor Governmental Funds  
As of and for the year ended June 30, 2013

	Special Revenue		Capital Projects	Total
	Urban Renewal Tax Increment	Library Trust Memorial		
Receipts				
Tax increment financing collections	\$ 6,566	-	-	6,566
Miscellaneous	-	2,322	-	2,322
Total receipts	6,566	2,322	-	8,888
Disbursements:				
Operating				
Culture and recreation	-	1,757	-	1,757
Community and economic development	6,566	-	-	6,566
Total disbursements	6,566	1,757	-	8,323
Net change in cash balances	-	565	-	565
Cash balances beginning of year	16,039	765	(47,592)	(30,788)
Cash balances end of year	\$ 16,039	1,330	(47,592)	(30,223)
<b>Cash Basis Fund Balances</b>				
Restricted for other purposes	\$ 16,039	1,330	-	17,369
Unassigned	-	-	(47,592)	(47,592)
Total cash basis fund balances	\$ 16,039	1,330	(47,592)	(30,223)

See accompanying independent auditors' report



City of Malvern  
Statement of Cash Receipts, Disbursements  
and Changes in Cash Balances  
Combining General Fund  
As of and for the year ended June 30, 2013

	General	Liberty Memorial Sinking	Park Sinking	Library Building	Total
<b>Receipts</b>					
Property tax	\$ 243,987	-	-	-	243,987
Other city tax	10,406	-	-	-	10,406
Licenses and fees	830	-	-	-	830
Use of money and property	8,326	-	-	288	8,614
Intergovernmental	2,726	-	-	7,280	10,006
Charges for services	118,368	-	-	-	118,368
Miscellaneous	3,304	-	-	-	3,304
Total receipts	387,947	-	-	7,568	395,515
<b>Disbursements:</b>					
Operating:					
Public safety	68,157	-	-	-	68,157
Public works	91,922	-	-	-	91,922
Culture and recreation	171,176	-	-	-	171,176
Community and economic development	2,766	-	-	-	2,766
General government	107,761	-	-	-	107,761
Total disbursements	441,782	-	-	-	441,782
Excess (deficiency) of receipts over (under) disbursements	(53,835)	-	-	7,568	(46,267)
Other financing sources:					
Operating transfers in	67,000	-	-	-	67,000
	67,000	-	-	-	67,000
Net change in cash balances	13,165	-	-	7,568	20,733
Cash balances beginning of year	(55,124)	6,983	7,101	37,477	(3,563)
Cash balances end of year	\$ (41,959)	6,983	7,101	45,045	17,170

See accompanying independent auditors' report

City of Malvern  
Schedule of Indebtedness  
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
General obligation notes:									
Downtown sidewalk improvement	Feb 1, 2001	5.00%	\$ 640,000	\$ 218,307	-	51,875	166,432	10,275	-
Liberty memorial building	Jul 1, 2004	4.50%	100,000	20,000	-	10,000	10,000	900	-
Building	Jan 18, 2007	4.75%	275,000	147,195	-	28,000	119,195	6,992	-
Library	Dec 19, 2008	4.50%	50,000	23,000	-	11,000	12,000	1,035	-
				\$ 408,502	-	100,875	307,627	19,202	-
Revenue note:									
Sewer	Jun 14, 2004	3.00%	\$ 799,000	\$ 520,000	-	37,000	483,000	15,600	-

See accompanying independent auditors' report

City of Malvern  
Note Maturities  
June 30, 2013

General Obligation Notes									
Year Ended June 30,	Downtown Sidewalk Improvement		Liberty Memorial Building		Library		Essential Corporate Purpose		
	Issued Feb 1, 2001		Issued Jul 1, 2004		Issued Jan 18, 2007		Issued Dec 19, 2008		
	Interest		Interest		Interest		Interest		
	Rates	Amount	Rates	Amount	Rates	Amount	Rates	Amount	Total
2014	5.00%	\$ 54,500	4.50%	\$ 10,000	4.75%	\$ 29,000	4.50%	\$ 12,000	\$ 105,500
2015	5.00%	57,259	-	-	4.75%	31,000	-	-	88,259
2016	5.00%	54,673	-	-	4.75%	32,000	-	-	86,673
2017	-	-	-	-	4.75%	27,195	-	-	27,195
Total		\$ 166,432		\$ 10,000		\$ 119,195		\$ 12,000	\$ 307,627

Revenue Note			
Sewer			
Issued Jun 14, 2004			
Year Ended June 30,	Interest Rates	Amount	
2014	3.00%	\$ 36,000	
2015	3.00%	39,000	
2016	3.00%	40,000	
2017	3.00%	41,000	
2018	3.00%	42,000	
2019	3.00%	44,000	
2020	3.00%	45,000	
2021	3.00%	46,000	
2022	3.00%	48,000	
2023	3.00%	49,000	
2024	3.00%	51,000	
Total		<u>\$ 483,000</u>	

See accompanying independent auditors' report

City of Malvern  
Schedule of Receipts By Source and Disbursements By Function -  
All Governmental Funds  
For the Last Nine Years

	2013	2012	2011	2010	2009	2008	2007	2006	2005
<b>Receipts</b>									
Property tax	\$ 378,852	385,502	359,237	358,456	339,395	346,343	312,598	291,091	296,538
Tax increment financing collections	6,566	6,546	3,925	-	-	-	-	-	-
Other city tax	91,789	86,874	85,511	83,416	86,445	82,873	83,127	73,964	71,480
Licenses and permits	830	1,938	2,764	1,689	2,360	1,335	1,067	472	1,300
Use of money and property	8,614	6,592	6,504	5,514	7,442	6,816	11,983	27,374	21,749
Intergovernmental	151,824	149,903	175,094	290,171	411,173	170,953	396,241	205,055	368,599
Charges for service	118,368	114,430	110,260	106,412	98,861	97,093	95,960	99,198	83,860
Special assessments	1,627	-	-	8,657	9,414	14,708	10,284	12,731	10,666
Miscellaneous	5,626	19,526	12,668	8,815	28,993	26,191	215,279	29,583	99,245
<b>Total</b>	<b>\$ 764,096</b>	<b>771,311</b>	<b>755,963</b>	<b>863,130</b>	<b>984,083</b>	<b>746,312</b>	<b>1,126,539</b>	<b>739,468</b>	<b>953,437</b>
<b>Disbursements</b>									
Operating:									
Public safety	\$ 68,157	71,017	62,699	61,604	63,070	81,892	70,934	72,107	70,772
Public works	229,966	216,410	228,925	251,488	262,079	248,611	250,808	292,794	270,334
Culture and recreation	194,274	191,735	170,895	161,670	194,152	183,026	194,648	679,211	157,495
Community and economic development	2,766	8,625	10,034	649	1,696	1,382	7,159	53,382	2,646
General government	113,096	105,858	92,768	100,918	89,982	112,106	141,743	120,676	130,528
Debt service	120,077	120,259	126,358	114,350	115,918	134,601	75,750	90,268	62,150
Capital projects	-	-	-	184,301	230,024	-	630,666	95,475	982,106
<b>Total</b>	<b>\$ 728,336</b>	<b>713,904</b>	<b>691,679</b>	<b>874,980</b>	<b>956,921</b>	<b>761,618</b>	<b>1,371,508</b>	<b>1,403,913</b>	<b>1,676,031</b>

See accompanying independent auditors' report



**City of Malvern**



Diane McGrain, CPA  
Jim Menard, CPA

December 6, 2013

Independent Auditors' Report on Internal Control over Financial Reporting  
and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards*

To the Honorable Mayor and  
Members of the City Council:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Malvern, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated December 6, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Malvern's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Malvern's internal control. Accordingly we do not express an opinion on the effectiveness of the City of Malvern's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of the City of Malvern's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings as item I-A-13 to be a material weakness.

Continued...

omni business centre  
300 west broadway, suite 41  
council bluffs, iowa 51503  
712•322•8734 / fax 712•322•4699  
[www.schroer-cpa.com](http://www.schroer-cpa.com)

City of Malvern  
Independent Auditors' Report on  
Internal Control and Compliance and Other Matters

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Malvern's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Malvern's Responses to Findings

The City of Malvern's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. City of Malvern's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control over compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Malvern during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Schroer & Associates, PC*

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2013

**Part I: Findings Related to the Financial Statements:**

**INTERNAL CONTROL DEFICIENCIES:**

I-A-13 Segregation of Duties

Comment – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits, posting of the cash receipts to the cash receipts journal, and reconciling are all done by the same person.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances. In addition, the Council should review monthly the Clerk's Report and actual to budget comparisons.

Response – We will implement additional controls.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were reported.



City of Malvern  
Schedule of Findings  
Year Ended June 30, 2013

**Part II: Other Findings Related to Statutory Reporting:**

**II-A-13      Certified Budget**

Comment - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public works function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

**II-B-13      Entertainment Expense**

We noted no disbursements for parties, banquets or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

**II-C-13      Travel Expense**

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**II-D-13      Business Transactions**

Business transactions between the City and City officials, employees or relatives of City officials are detailed as follows:

Dwain Pelzer, Council Member, Owner of Dwain's Repair Service	Vehicle Repair	<u>\$1,971</u>
--	----------------	----------------

The transaction with the Council Member does not appear to represent a conflict of interest since the total transactions were less than \$2,500 during the year.

**II-E-13      Bond Coverage**

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**II-F-13      Council Minutes**

No transactions were found that we believe should have been approved in the City Council minutes but were not.

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2013

**Part II: Other Findings Related to Statutory Reporting Continued:**

**II-G-13      Enterprise Debt**

Comment – Although the City has made the necessary transfers per the sewer bond resolution and has serviced the debt, net receipts were insufficient to service operations and debt service requirements, resulting in a negative unrestricted fund balance.

Recommendation – The City should consider raising sewer rates in order to maintain the fund in sound financial condition.

Response – We will review this further.

Conclusion – Response accepted.

**II-H-13      Deposits and Investments**

We noted no instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

**II-I-13      Financial Condition**

Comment –The Capital Projects Fund had a deficit balance of \$47,592, and the Enterprise, Sewer Fund had a deficit balance of \$6,118.

Recommendation – The City should monitor the activity in these funds in order to eliminate the deficits. The City should control spending within budget limits and corresponding revenue sources.

Response – We will review this further and return these funds to a sound financial condition. The Capital Projects Fund deficit will be eliminated with the transfer of funds. We will consider another sewer rate increase if necessary.

Conclusion – Response accepted.

**II-J-13      Inactive Capital Project**

Comment – The Capital Projects Fund is inactive.

Recommendation – The City should make the appropriate transfer to close.

Response – We will do this when funds are available from the General Fund.

Conclusion – Response accepted.

City of Malvern  
Schedule of Findings  
Year Ended June 30, 2013

**Part II: Other Findings Related to Statutory Reporting Continued:**

II-K-13      Tax Increment Financing

Comment – The City has cash on hand of \$16,039 at June 30, 2013 in the Special Revenue, Tax Increment Financing Fund to pay for TIF debt no longer outstanding.

Recommendation – The City should consult bond counsel to determine the disposition of this issue.

The City should complete and provide TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding for the cash on hand in the Special Revenue, Tax Increment Financing Fund at June 30, 2013.

Response – We will consult bond counsel and submit TIF Certification Form 3 to the County Auditor to reduce the TIF indebtedness outstanding.

Conclusion – Response accepted.

II-L-13      Tax Increment Financing

The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

II-M-13      Excess Balances

Comment – The balance in the Enterprise Fund – Water was in excess of the fund disbursements during the year.

Recommendation – The city should consider the necessity of maintaining this substantial balance and, where financial feasible, consider reducing the balance in an orderly manner through revenue reductions.

Response – We plan on using the excess balance on improvement projects and emergency situations.

Conclusion – Response accepted.